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May 17, 2002

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: Canal Electric Company, Cambridge Electric Light Company, and
Commonwealth Electric Company, D.T.E. 02-34

Dear Secretary Cottrell:

Enclosed is an original and five (5) copies of a Petition for Approval of Asset Divestiture (the "Petition"), with accompanying testimony and supporting exhibits, submitted by Canal Electric Company ("Canal"), Cambridge Electric Light Company ("Cambridge"), and Commonwealth Electric Company ("Commonwealth," together with Canal and Cambridge, the "Companies"). The Petition seeks approval by the Department of Telecommunications and Energy (the "Department"), pursuant to G.L. c. 164, §§ 1A, 1G, 76, 94, 94A and 94B, for the following: (1) approval of the sale of Canal's minority interest in the nuclear power plant known as Seabrook Station ("Seabrook"), which is an operational 1,161-megawatt ("MW") nuclear generating unit located in Seabrook, New Hampshire, to FPL Energy Seabrook, LLC ("FPLE Seabrook"); (2) approval of the Ninth Amendment to Power Contract By and Between Canal Electric Company, Cambridge Electric Light Company and Commonwealth Electric Company, which provides for Cambridge and Commonwealth's buyout of any and all obligations with respect to purchasing Seabrook power from Canal (the "Buyout Agreement"); and (3) findings concerning the divested assets as eligible facilities for exempt wholesale generator ("EWG") status under Section 32 of the Public Utility Holding Company Act of 1935 (15 U.S.C. § 79z-5a) ("PUHCA").

Also enclosed are: (1) a Joint Motion to Consolidate (the "Motion"), which the Companies submit to the Department jointly with New England Power Company ("NEP") in order to consolidate the Department's consideration of the divestiture of Canal's and NEP's interest in Seabrook, as well as findings under PUHCA;¹ and (2) a

¹ NEP is filing a petition on this date similar to that filed herein by the Companies seeking approval of the divestiture of its minority interest in Seabrook.

Motion for Protective Treatment of certain information in Exhibit 5 of the Companies' Petition.

The Petition, in part, concerns the divestiture by Canal of its approximate 3.52 percent interest in Seabrook to FPLE Seabrook. After an open and competitive auction, FPLE Seabrook has agreed to purchase a controlling interest in Seabrook for approximately \$836.6 million, subject to certain adjustments at closing.² The selling owners of Seabrook include: North Atlantic Energy Corporation; The United Illuminating Company; Great Bay Power Corporation; New England Power Company; The Connecticut Light and Power Company; Canal; Little Bay Power Corporation; and New Hampshire Electric Cooperative, Inc. (the "Selling Owners").³

The Selling Owners have entered into a purchase and sale agreement (the "PSA") with FPLE Seabrook to accomplish the divestiture. In addition to provisions governing the purchase price, the PSA includes the following terms: (1) FPLE Seabrook will assume the decommissioning liability for the acquired portion of Seabrook, and also will assume the existing decommissioning trust funds of the Selling Owners, with the Selling Owners responsible for any top-off payment to meet the decommissioning funding requirements of the New Hampshire Nuclear Decommissioning Financing Committee; and (2) the Selling Owners will be relieved of liabilities relating to Seabrook's future decommissioning costs, capital additions and operating expenses. Notably, the transaction does not require a PPA between FPLE Seabrook and any of the Selling Owners after the closing

In addition, the Companies have entered the Buyout Agreement to terminate the existing power purchase agreement with Seabrook (the "Seabrook PPA"). The Buyout Agreement provides for Cambridge and Commonwealth's buyout of any and all of their obligations pursuant to the Seabrook PPA between Cambridge, Commonwealth and Canal for the purchase of capacity and energy from Seabrook. The amount to be paid (the "Buyout Amount") is estimated to be \$14.4 million.

Also, the Petition seeks findings pursuant to § 32 of PUHCA. As a condition to closing the sale of Seabrook to FPLE Seabrook, FPLE Seabrook must obtain the

² The auction was conducted pursuant to New Hampshire RSA 369-B:3, IV(b)(13) and Connecticut General Act 98-28, 'An Act Concerning Electric Restructuring' (Conn. Gen. Stat. Section 16-244f) ("CT Act").

³ The remaining owners of Seabrook are: the Massachusetts Municipal Wholesale Electric Company, the Taunton Municipal Lighting Plant and the Hudson Light and Power Department. The respective shares of the Selling Owners of Seabrook are: North Atlantic Energy Corporation (36.0%); The United Illuminating Company (17.5%); Great Bay Power Corporation (12.1%); New England Power Company (9.96%); The Connecticut Light and Power Company (4.06%); Canal (3.52%); Little Bay Power Corporation (2.90%); and New Hampshire Electric Cooperative, Inc. (2.17%).

determination of the Federal Energy Regulatory Commission (“FERC”) that it qualifies as an “exempt wholesale generator” under Section 32 of PUHCA. EWG status is critical to FPLE Seabrook because EWG status allows it to own and operate the assets without regulation under PUHCA. FERC’s EWG finding must be based, in part, on a determination that the purchased facilities are “eligible facilities.” If such facilities have been in the seller’s retail rates as of October 24, 1992, the determination that they are “eligible facilities” depends, in part, on specific findings by the state regulatory commission having jurisdiction over such facilities. Because the assets to be sold were in Cambridge’s and Commonwealth’s retail rates as of October 24, 1992, and because the Department had jurisdiction over such facilities, specific findings must be obtained from the Department in order to obtain the required “eligible facilities” findings from FERC.

In support of this Petition, the Companies are attaching the following exhibits:

- Exhibit 1 Prefiled testimony of Robert H. Martin, Director, Electric Energy Supply, Asset Divestiture and Outsourcing for NSTAR Electric & Gas Corporation (the “Martin Testimony”).
- Exhibit 2 Prefiled testimony of Paul M. Dabbar, Vice President at JPMorgan Securities Inc. (“JPMorgan”), regarding the NHPUC auction (the “Dabbar Testimony”).
- Exhibit 3 Purchase and Sale Agreement entered into on April 13, 2002 between Canal and other Selling Owners of Seabrook, and the buyer, FPL Energy Seabrook, LLC.
- Exhibit 4 Ninth Amendment to Power Contract By and Between Canal Electric Company and Cambridge Electric Light Company and Commonwealth Electric Company, originally dated September 1, 1986.
- Exhibit 5 Cambridge/Commonwealth Transaction Analysis [REDACTED].

The asset divestiture set forth in the Petition is consistent with the Companies’ efforts to lower rates for their customers and to mitigate transition costs to the maximum extent possible through the divestiture of generation assets. The auction process for Seabrook is consistent with the Electric Restructuring Act, Chapter 164 of the Acts of 1997 (the “Restructuring Act”).

The Joint Motion to Consolidate requests that the Department consolidate evidentiary hearings regarding the Companies’ and NEP’s separate petitions for approval of the divestiture of their respective minority interests in Seabrook, as well for findings under § 32 of PUHCA. The respective petitions of the Companies and NEP regarding these issues present nearly identical legal and factual issues that would be most

efficiently conducted through a consolidated hearing. In addition, consolidation will result in the efficient use of administrative resources and allow the Companies and NEP to present their cases expeditiously and avoid duplicative discovery and testimony preparation regarding these issues.

In addition, the Companies have included in this filing a Motion for Protective Treatment. The Motion for Protective Treatment seeks protection from public disclosure of certain proprietary, confidential and highly sensitive competitive information in Exhibit 5 regarding the Companies' assumptions about the future market price of power. Accordingly, the Companies are filing a redacted version of Exhibit 5 with this letter and an unredacted version of Exhibit 5 under separate cover, pending the Department's ruling on the Companies' Motion for Protective Treatment.

The Companies are very pleased with the results of the auction process. As described in the testimony of Mr. Dabbar, the price to be paid by FPLE Seabrook is approximately \$792 per kilowatt of capacity purchased. Similar to the auctions approved by the Department in Canal Electric Company/Cambridge Electric Light Company/Commonwealth Electric Company, D.T.E. 98-78/83 (1998), Massachusetts Electric Company, D.P.U/D.T.E. 97-94 (1998) and Boston Edison Company, D.P.U./D.T.E. 97-113 (1998), the Seabrook auction provided market participants open and non-discriminatory access to all relevant information and was a competitive process that will result in the maximum mitigation of transition costs, in accordance with the Restructuring Act. Indeed, the auction, in combination with the Buyout Agreement, will result significant savings for customers. Accordingly, the Companies respectfully request the Department's approval of this Petition.

A draft order of notice and a notice of filing and public hearing is enclosed for your review. Please direct any inquiries or correspondence regarding the Petition or other documents in this filing to:

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Also enclosed is the \$100 filing fee. Thank you for your attention to this matter.

Very truly yours,

David S. Rosenzweig

Enclosures

cc: Jesse Reyes, Esq.
Alexander Cochis, Assistant Attorney General
Laura Olton, Esq.